The ABCs of Real Estate

Stanley the snail knows all about buildings. He carries one.



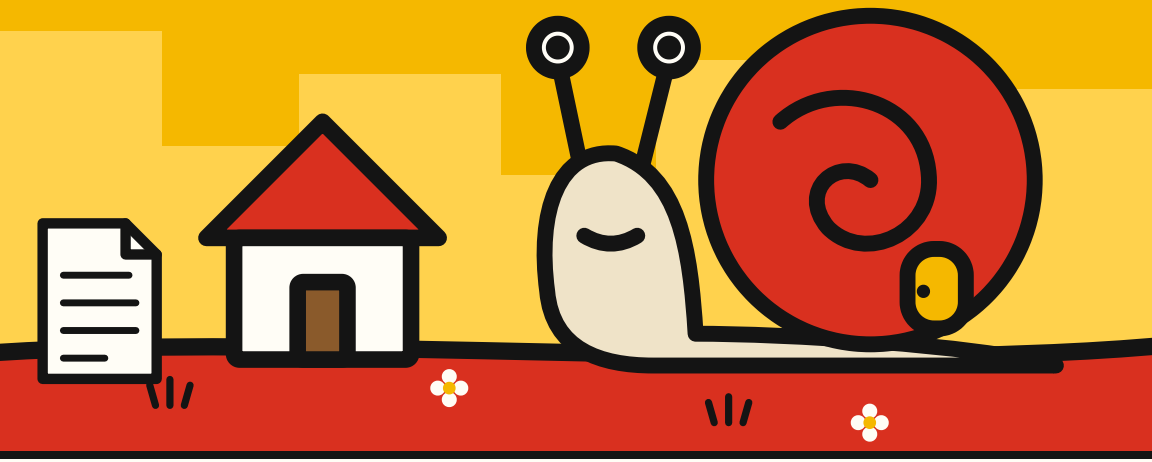
FundOpsHQ



This book belongs to

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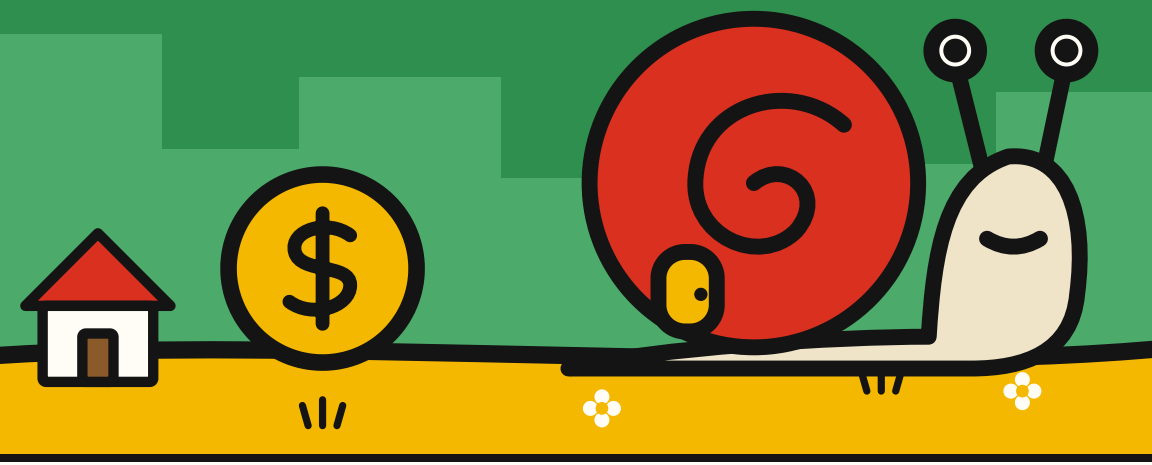
A



Appraisal

An appraisal is an expert's careful estimate of what a building is worth.

B



Basis

Your basis is what a building really cost you, all in, including the repairs.

C



Cap rate

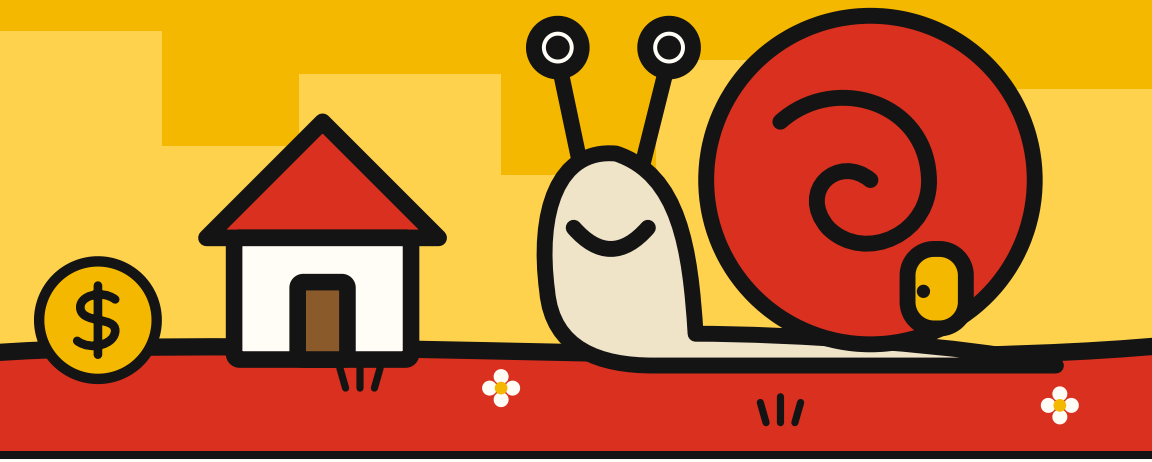
Divide a building's yearly income by its price, and you get the cap rate. Five on a hundred is a cap rate of 5%.



Debt service coverage

Divide a building's income by its loan payments. Lenders commonly look for about 1.25, so there is room to spare.

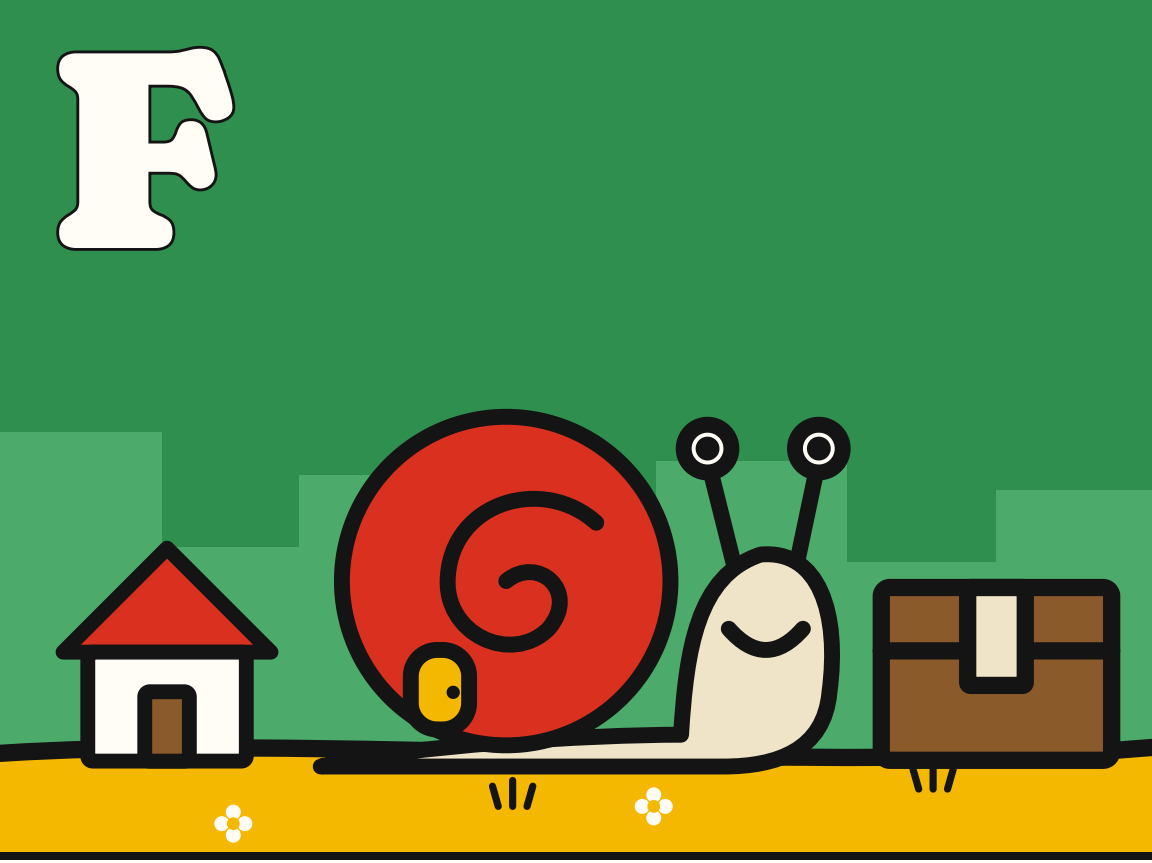
E



Equity

Equity is the part of a building the owners have paid for themselves. The rest is the loan.

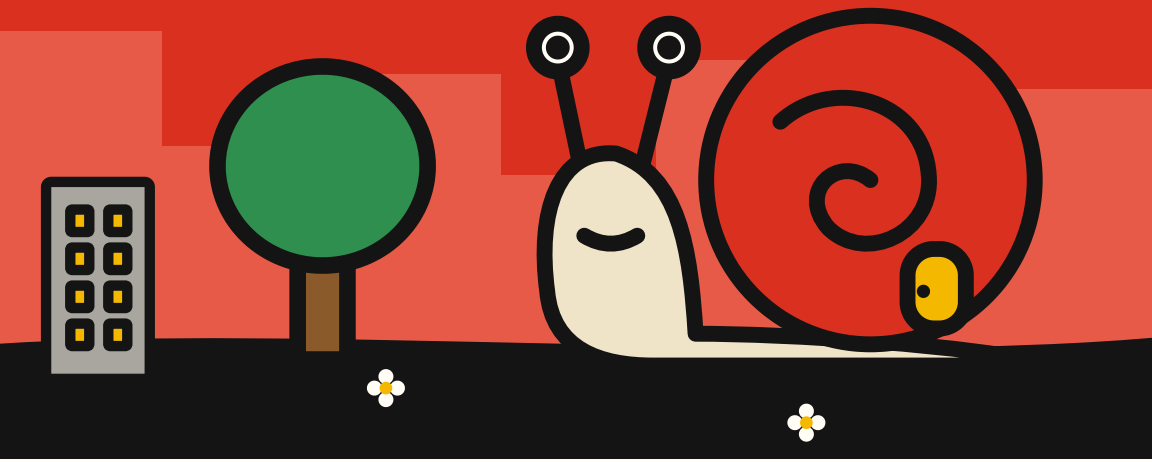
F



Fit-out

A fit-out gets a space ready for its tenant, with paint, shelves and lights.

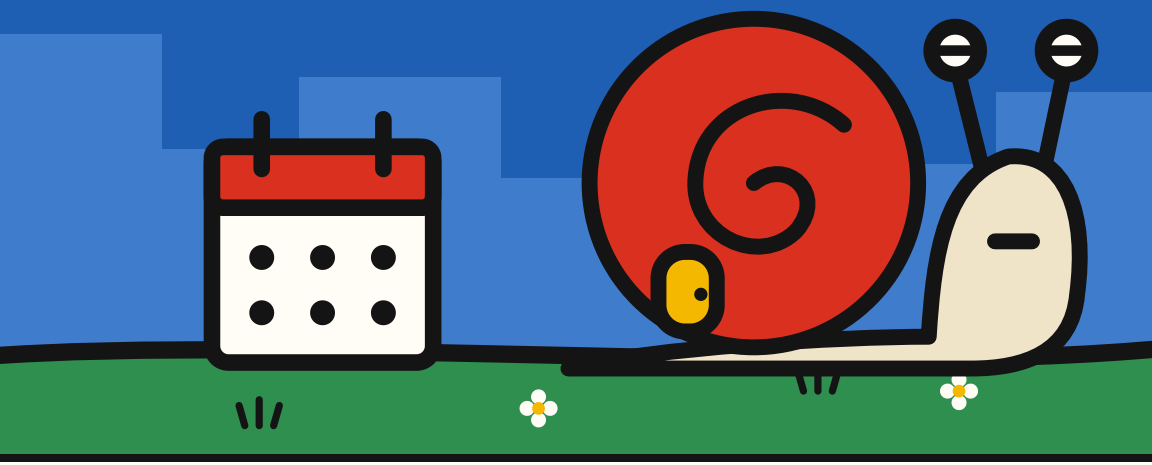
G



Ground lease

With a ground lease, you own the building and rent the land underneath it for a very long time.

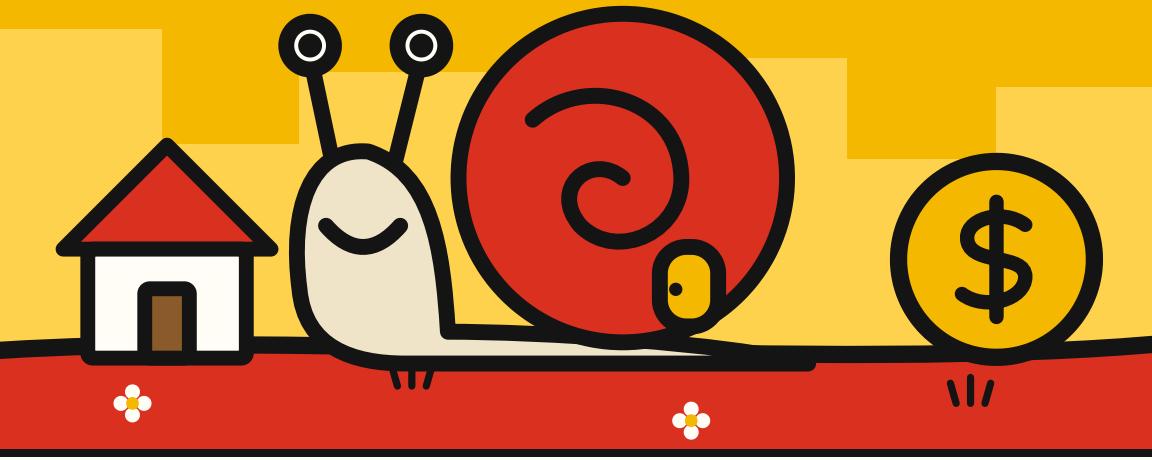
H



Hold period

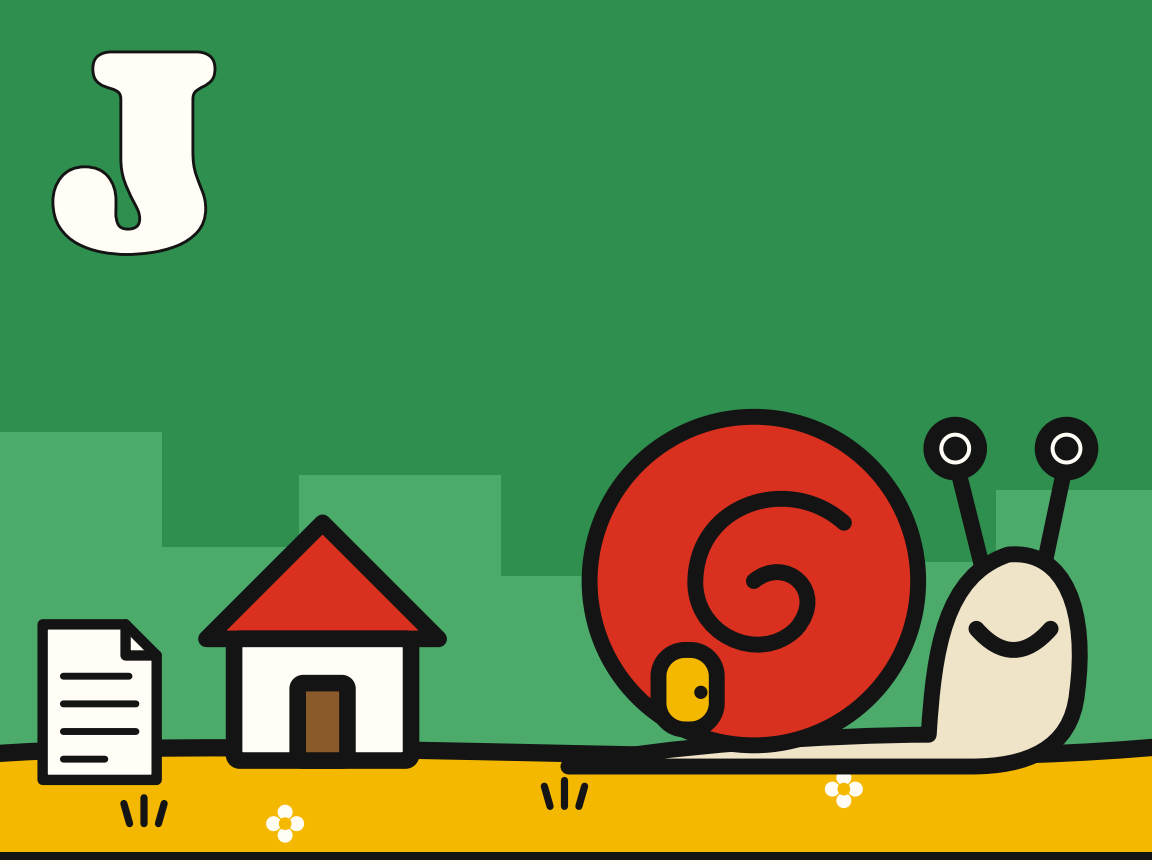
The hold period is how long an owner plans to keep a building. Stanley does not rush.

I



Income

A building's income is mostly the rent its tenants pay.



Joint venture

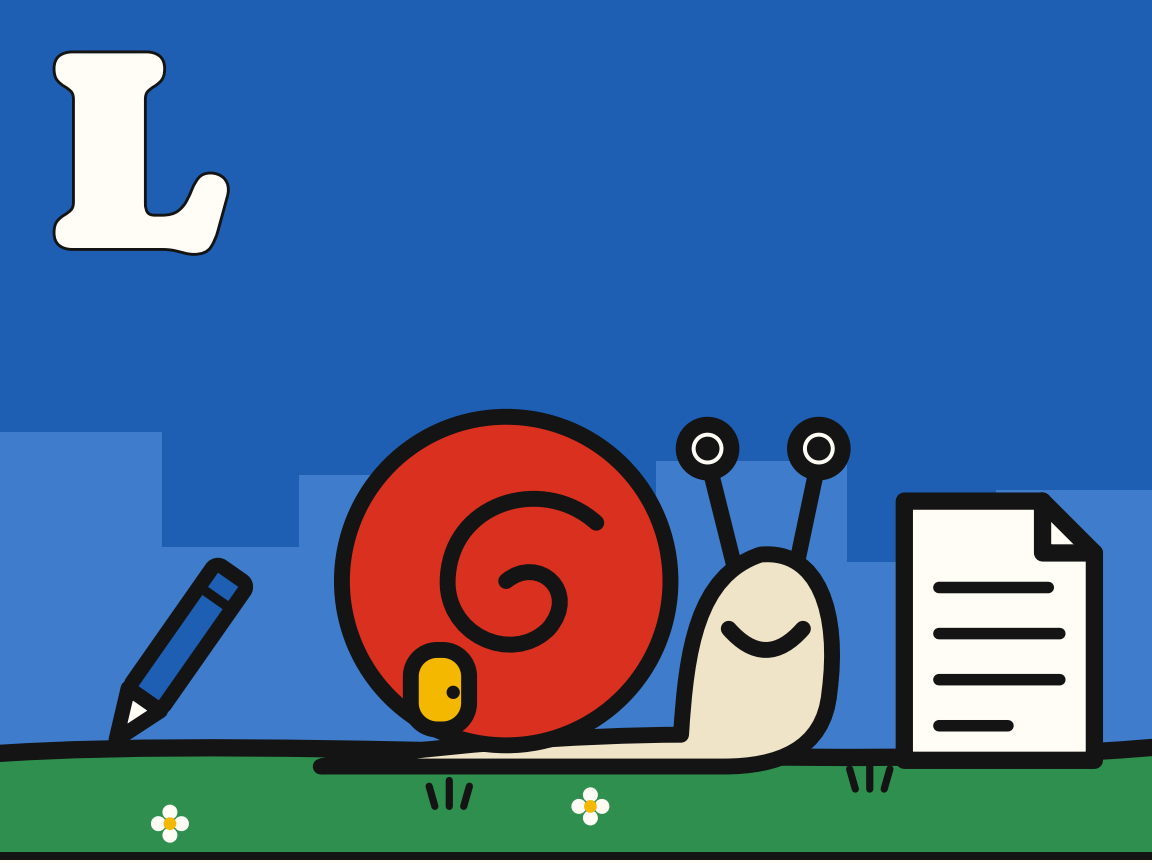
In a joint venture, two owners share one building and agree how decisions are made.

K



Keys

Every new tenant gets a set of keys. It is a small and happy moment.



Lease

A lease is an agreement that lets a tenant use a space for a set time, in return for rent.

M



Mortgage

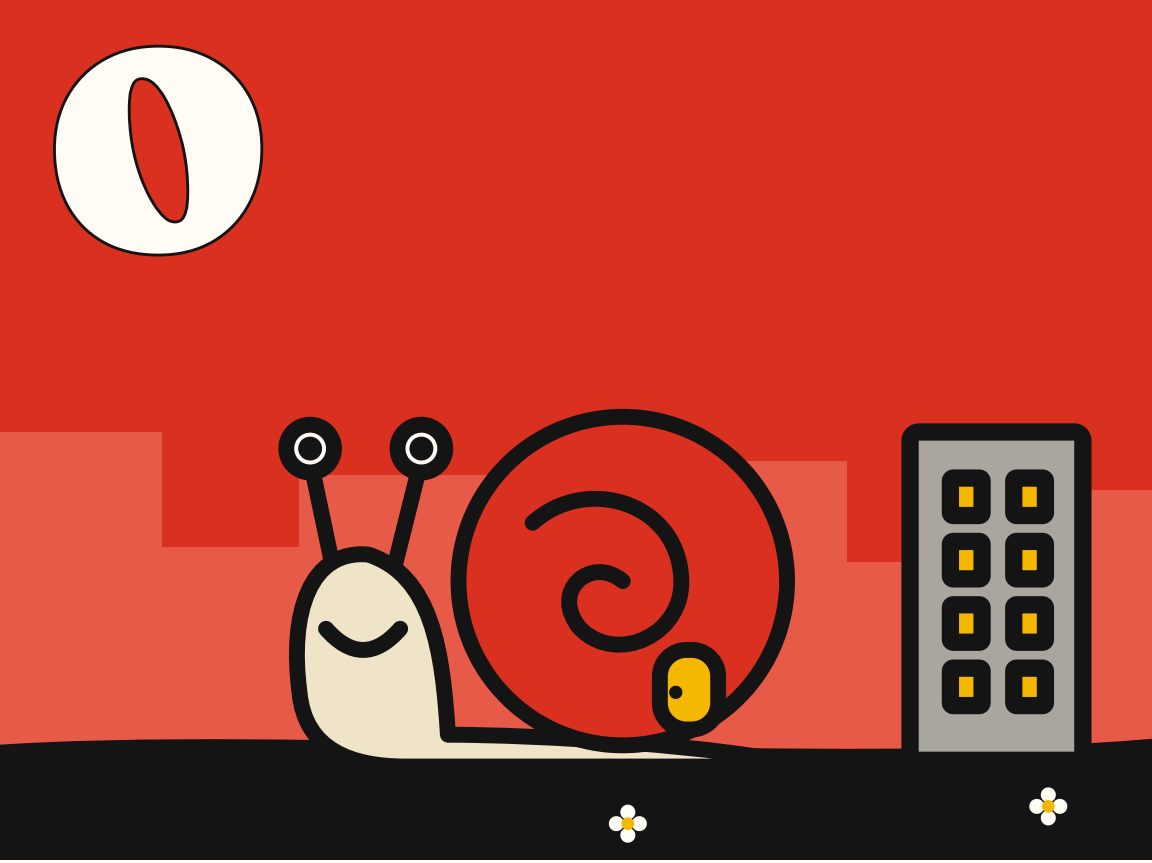
A mortgage is a loan with a building standing behind it. Bit by bit, it gets paid back.

N



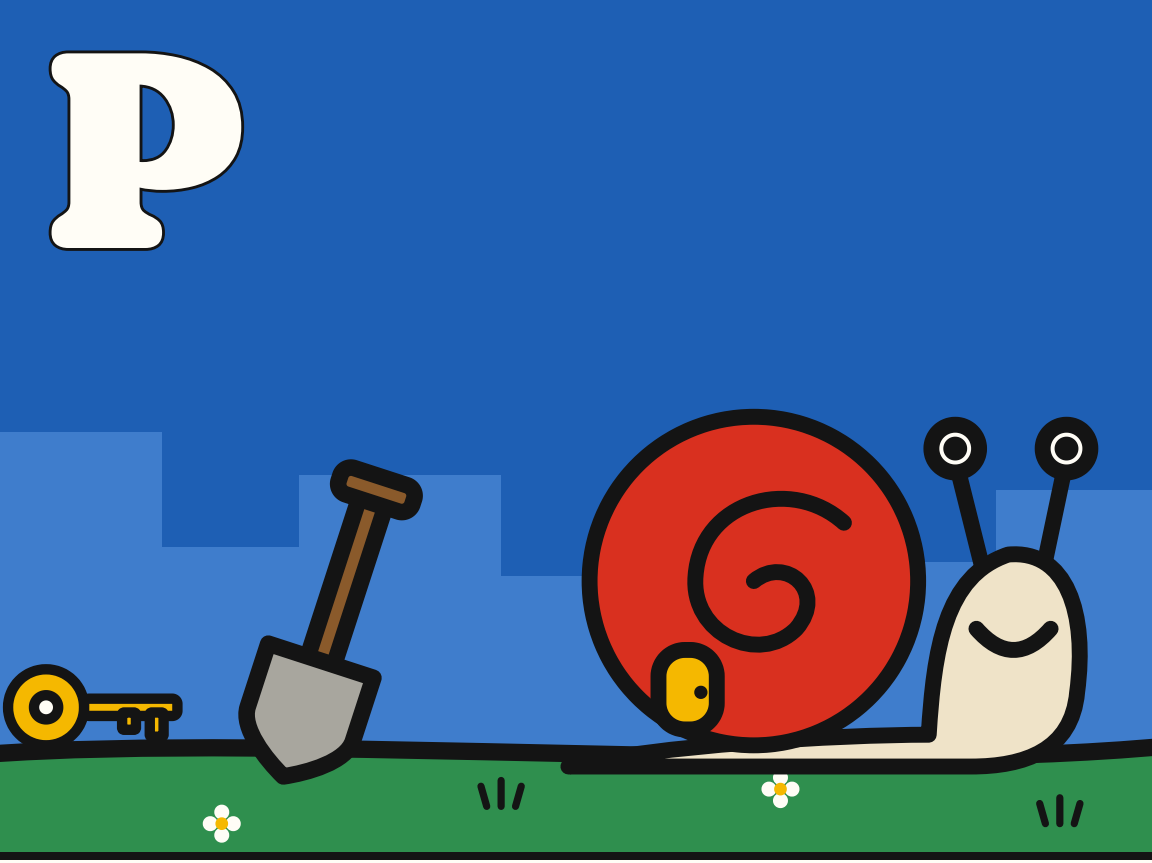
Net operating income

Net operating income is what a building earns after its running costs and before its loan.



Occupancy

Occupancy is how much of a building is rented. Lights on in every window is a lovely thing to see.



Property manager

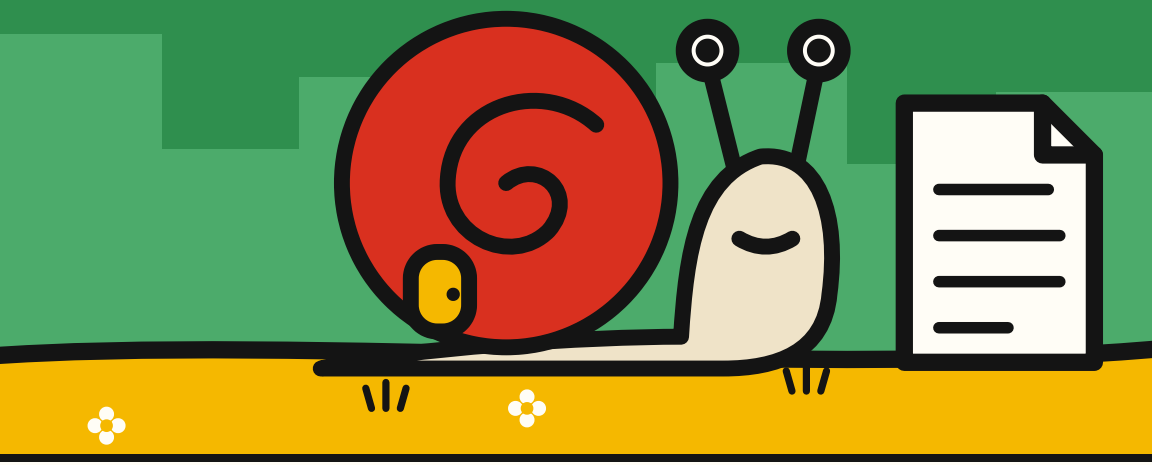
A property manager looks after a building day to day. They fix the taps and know the tenants' names.



Quiet enjoyment

Quiet enjoyment is a real legal term. It means tenants have the right to use their space without being disturbed.

R



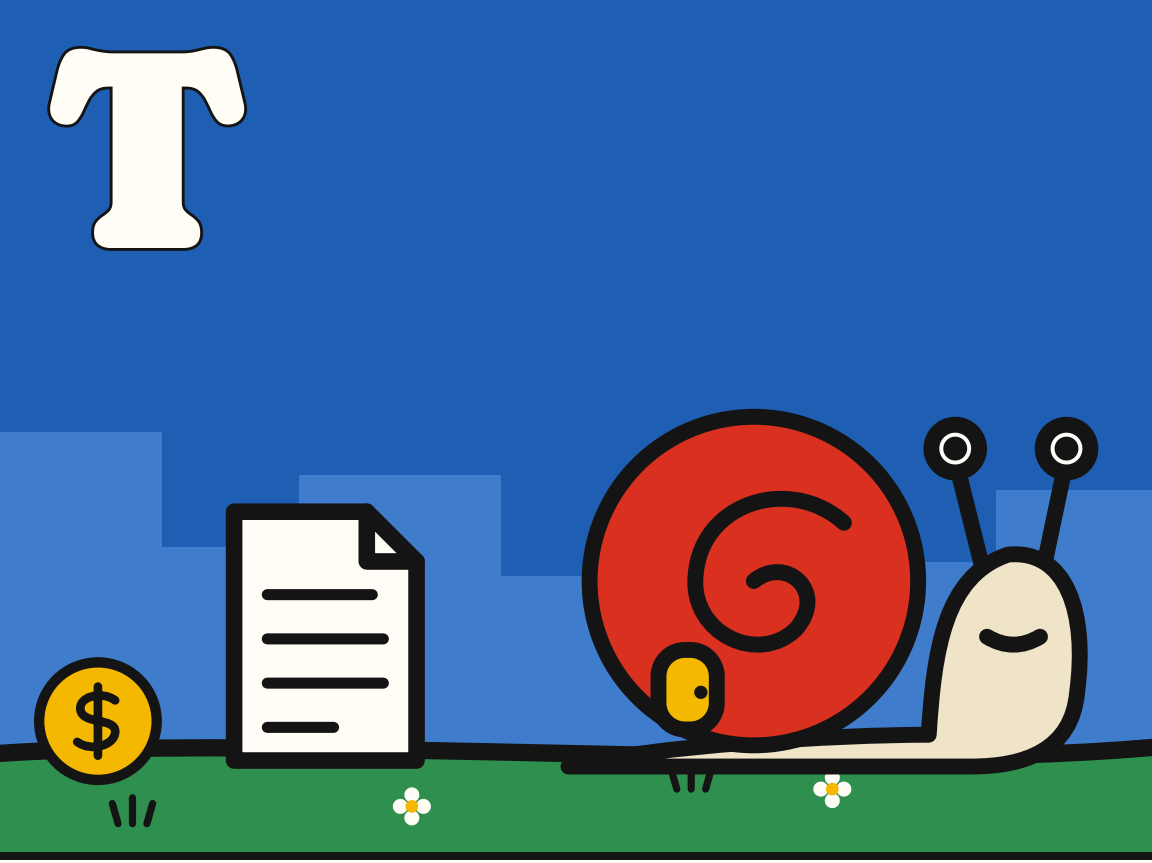
Rent roll

A rent roll lists who rents what, for how much and until when.



Stabilized

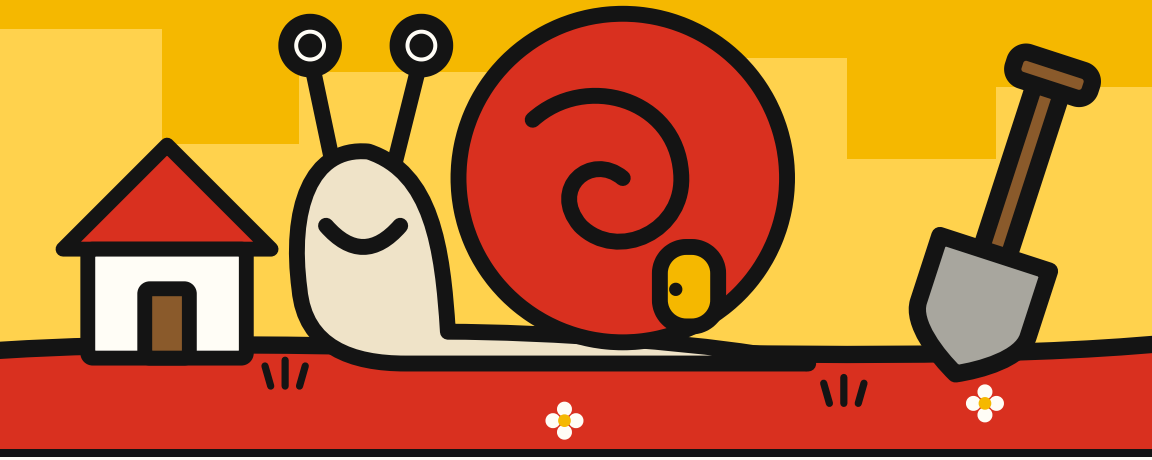
A building is stabilized when it is rented up and earning as planned.



Triple net

In a triple net lease, the tenant pays the rent and also the taxes, insurance and upkeep.

U



Upkeep

Roofs, pipes and paint all need looking after. Good upkeep keeps a building good for a long time.

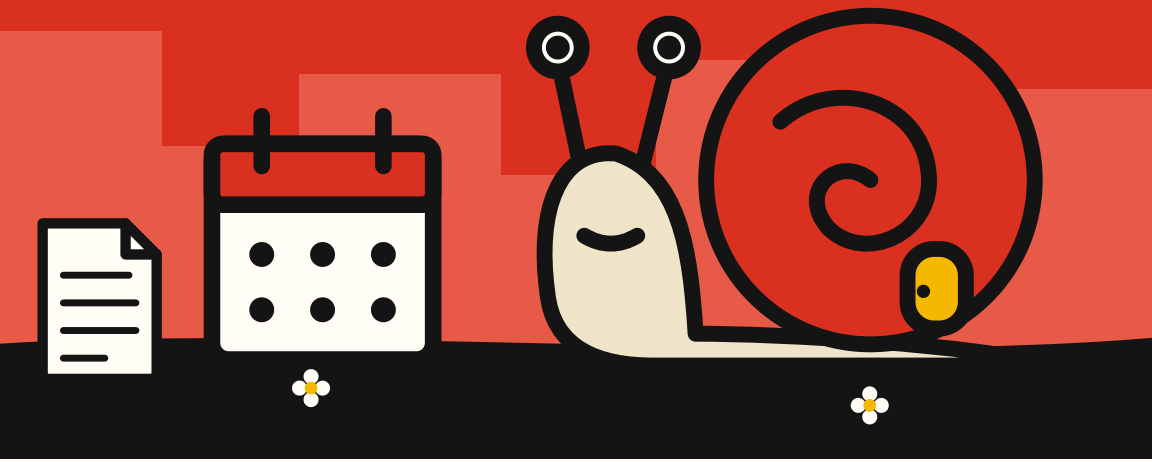
V



Value-add

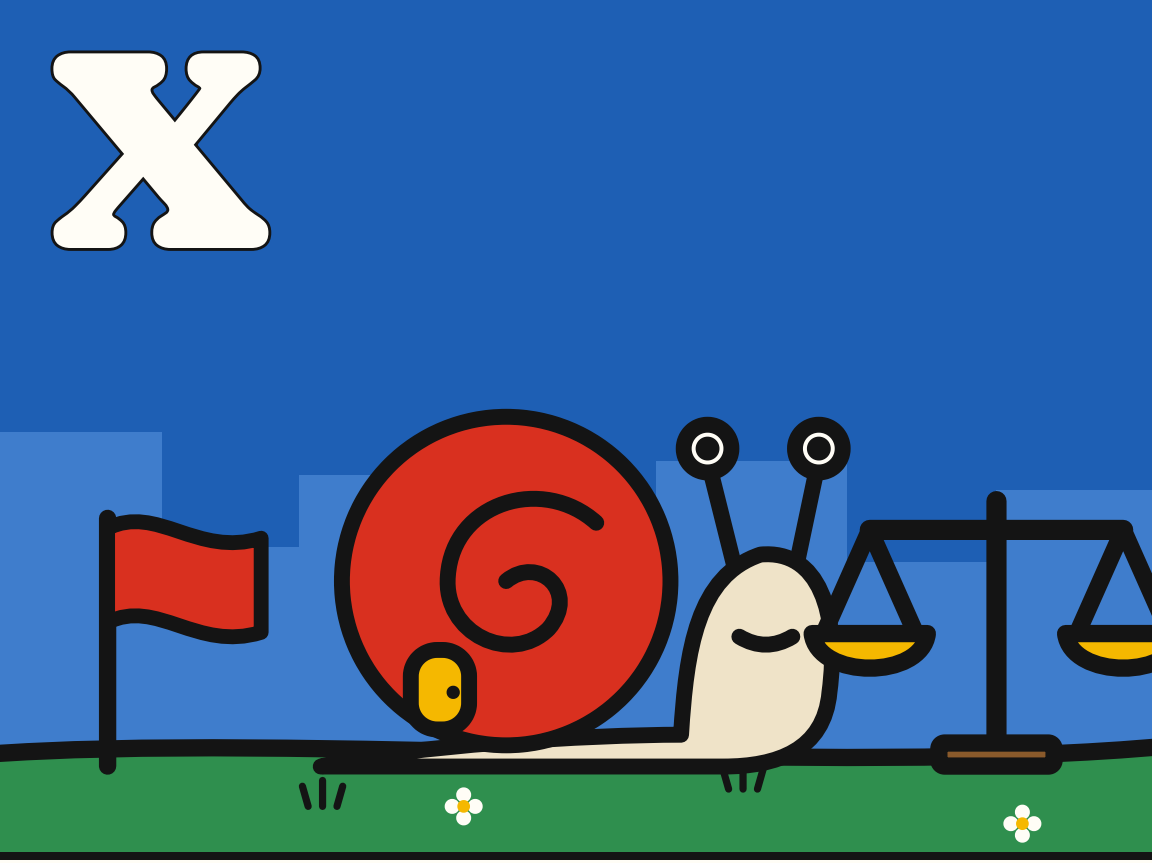
A value-add owner buys a building that needs care, fixes it up and makes it a better place to be.

W



WALT

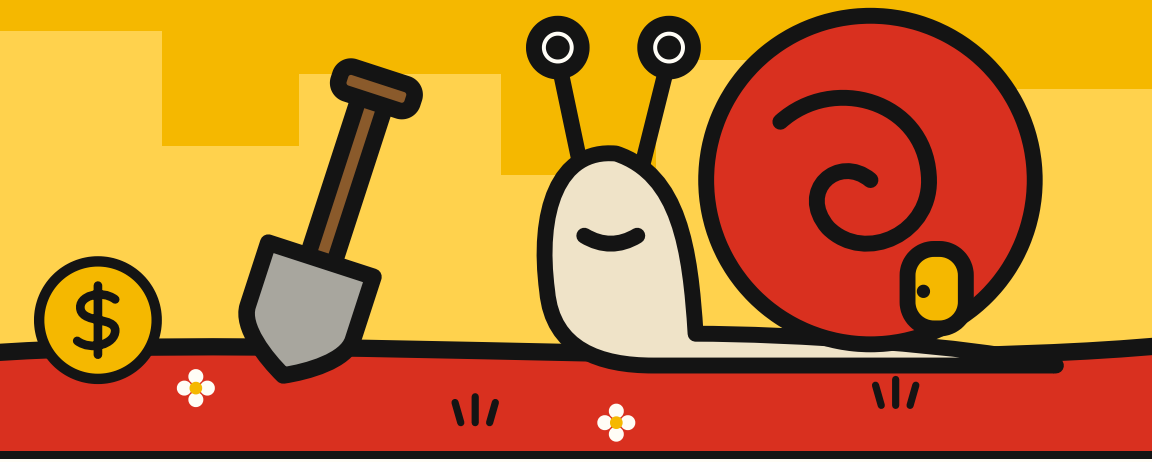
WALT stands for weighted average lease term. It tells you how long a building's leases have left, on average.



eXit cap rate

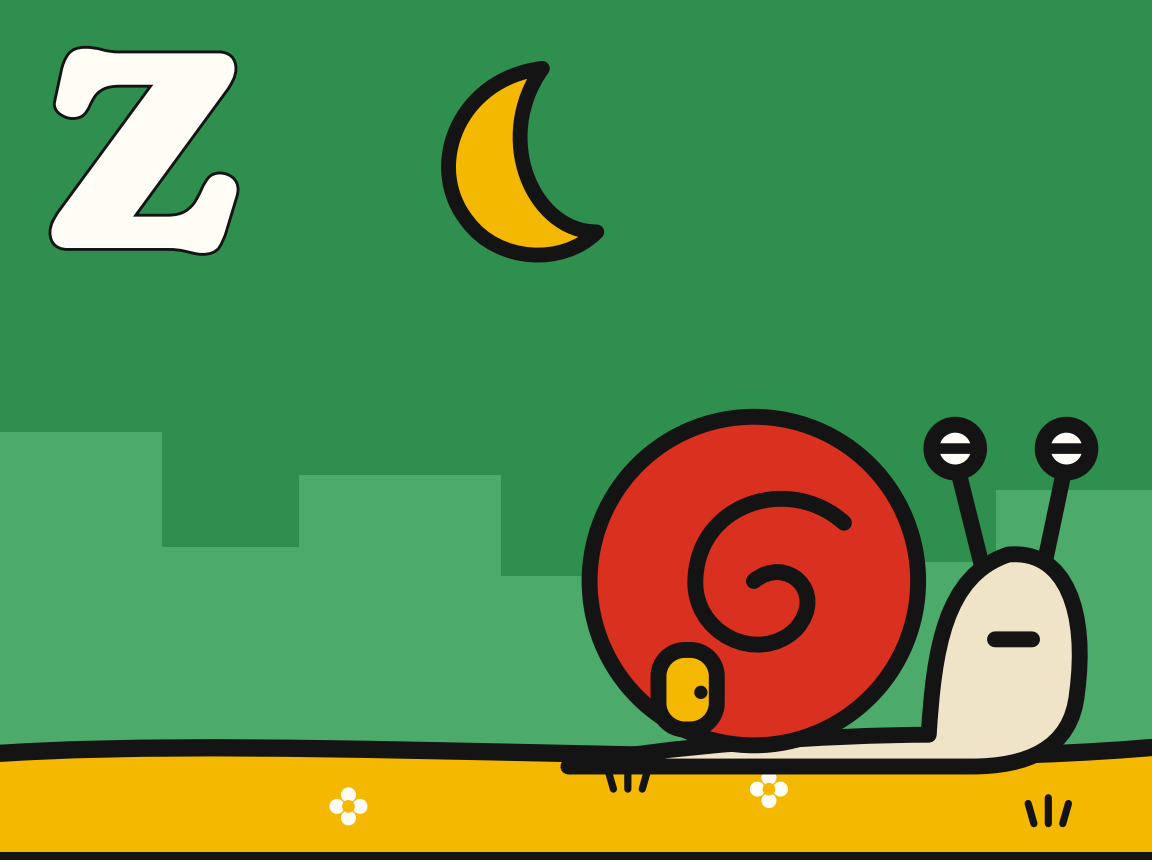
The exit cap rate is the cap rate an owner expects when selling, years from now.

Y



Yield on cost

Divide a new building's income by what it cost to build. That is the yield on cost.



Zzz

Stanley never has far to go at bedtime.
He is already home.



A note for grown-ups

The words in this book are real ones, explained simply. The animals and examples are made up, and real terms vary from fund to fund. It is here to help you read and talk together, and it is not advice.

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